

Before the
Federal Communications Commission
Washington, D.C. 20554

In the Matter of)	
)	
Implementation of Section 3 of the Cable)	
Television Consumer Protection and Competition)	MM Docket No. 92-266
Act of 1992)	
)	
Statistical Report on Average Rates for Basic)	
Service, Cable Programming Service, and)	
Equipment)	

REPORT ON CABLE INDUSTRY PRICES

Adopted: January 14, 2005

Released: February 4, 2005

By the Commission: Commissioners Copps and Adelstein concurring and issuing a joint statement.

I. INTRODUCTION

1. Section 623(k) of the Communications Act, as amended by the Cable Television Consumer Protection and Competition Act of 1992 ("1992 Cable Act"),¹ requires the Commission to publish a statistical report on cable prices, or more specifically, average rates for the delivery of basic cable service, cable programming service, and equipment.² The Act also requires the Commission to compare the average rates of cable operators subject to effective competition with those of operators not subject to effective competition. This 2004 Report is issued in compliance with those statutory obligations.

2. The information and analysis provided in this Report are based on the Commission's 2004 Survey of cable industry prices ("Survey").³ The Survey requested data from cable operators pertaining to monthly cable rates in communities selected as part of a random sample. We requested data as of January 1, 2004, and limited amounts of data as of January 1, 2003, and January 1, 2002. The Survey enables the Commission to examine the change in cable rates nationwide. In addition, the Survey enables the Commission to compare cable rates charged by cable operators in two groups of cable communities: (1) communities where operators do not face effective competition (herein referred to as the

¹ Section 623(k) was adopted as Section 3(k) of the 1992 Cable Act, Pub. L. No. 102-385, 106 Stat. 1460, codified at 47 U.S.C. § 543(k).

² See 47 U.S.C. § 543(k). The term "service tier" refers to a group of video channels for which the operator charges a separate rate. See 47 U.S.C. § 522(l)(7). The 1992 Cable Act defines basic service as the tier that includes the retransmission of local television broadcast signals. See 47 U.S.C. § 543(b)(7). Cable programming service consists of any video programming other than that carried on the basic service tier and other than programming for which the operator charges a per channel or per program fee. See 47 U.S.C. § 543(k)(1)(2). Equipment refers to a converter box, remote control, and other equipment necessary to access programming. See 47 U.S.C. § 543(b)(3).

³ The Commission directed cable operators to respond to certain data requests, pursuant to Section 623(k) of the Communications Act, 47 U.S.C. § 543(k). See *Implementation of Section 3 of the Cable Television Consumer Protection and Competition Act of 1992, Statistical Report on Average Prices for Basic Service, Cable Programming Services, and Equipment*, 19 FCC Rcd 325 (2004).

"noncompetitive group"); and (2) communities where operators are deemed to face effective competition (the "competitive group"). The competitive group is limited to those communities where a cable operator has sought and obtained a Commission finding of effective competition.⁴

3. We rely on the Commission's formal legal decisions regarding effective competition, based on the statutory definition of that term, in order to compile our list of communities in which cable operators face effective competition. Because of this, we are unable to take into account those areas of the country where there may be sufficient competition to reach effective competition status, but no finding to that effect has been made. For example, there may be areas where sufficient direct broadcast satellite (DBS) competition exists to support a finding of effective competition, but if no formal ruling to that effect has been requested or obtained, we cannot include those areas in our list of communities facing effective competition.⁵ We also are unable to take into account situations where a finding of effective competition has been made but, although the criteria for effective competition no longer are satisfied, the local franchise authority has not filed for recertification.

4. To compare average monthly rates of cable operators serving noncompetitive and competitive communities, we selected a sample from each group. Further, to gain more precise estimates, we divided the competitive group by type of cable "overbuild."⁶ We also included a category for communities in which a finding of effective competition was based on the low-penetration test. We selected a portion of the competitive sample from each subgroup. The competitive subgroups are: (1) wireline overbuilds (cable subscribers in this subgroup represent an estimated 39 percent of the total in the competitive group); (2) DBS (30 percent of subscribers); (3) wireless overbuild (27 percent of subscribers); and (4) findings of effective competition through the low penetration test (4 percent of subscribers). The wireline overbuild subgroup contains the incumbent cable operator as well as the rival cable operator. The other subgroups include only the incumbent cable operator because DBS and wireless operators are not part of the Survey, and because the low-penetration test depends on market share rather than the existence of a rival operator.

5. The Survey collected information about monthly cable rates for the basic service tier and the

⁴ The Commission grants petitions for determinations of effective competition for any cable operator that meets one of four tests in a community: (1) fewer than 30 percent of households subscribe to the cable operator's service (herein referred to as the "low penetration test"); (2) at least two multi-channel video programming distributors ("MVPDs") serve 50 percent or more of households and at least 15 percent of those households take service other than from the largest MVPD (the "50/15 test"); (3) a municipal MVPD offers service to at least 50 percent of households (the "municipal test"); or (4) a local exchange carrier ("LEC") or its affiliate (or any using the facilities of the LEC or its affiliate) offers MVPD service (other than direct broadcast satellite service) comparable to the service of an unaffiliated MVPD (the "LEC test"). See 47 U.S.C. § 543(I)(1)(A-D). As of January 1, 2004, the competitive group consisted of 997 communities, or 3 percent of cable communities nationwide, serving an estimated 8 percent of cable subscribers nationwide. Cable operators are not subject to rate regulation in communities where the Commission has made a finding of effective competition. In other communities, local franchise authorities may regulate the rates of the basic service tier and cable equipment. See 47 U.S.C. § 543(I)(2).

⁵ DBS penetration now exceeds 20 percent of television households in some 30 states, and 30 percent in five states. See *Annual Assessment of the Status of Competition in the Market for the Delivery of Video Programming*, 17 FCC Rcd 1273 (2002).

⁶ The term "overbuild" describes the situation in which a second cable operator enters a local market in direct competition with an incumbent cable operator. In these markets, the second operator, or "overbuilder," lays wires in the same area as the incumbent, "overbuilding" the incumbent's plant, thereby giving consumers a choice between cable service providers. The "wireline overbuild" subgroup includes effective competition findings under the 50/15 test, the municipal test, and the LEC test, unless the finding involves (1) a wireless MVPD in which case that community is included in the "wireless overbuild" subgroup; or (2) a DBS operator in which case that community is included in the "DBS" subgroup.⁶ See also note 4.

major cable programming service tier ("expanded basic service").⁷ Basic service includes local broadcast stations and any public, educational and governmental (PEG) access channels. In addition, cable operators usually elect to include a few additional local or satellite channels in basic service.⁸ Expanded basic service consists of channels other than basic service, premium, pay-per-view including video on demand, or mini-tier channels. Subscribers must purchase basic service in order to subscribe to expanded basic service. About 90 percent of cable subscribers take both basic and expanded basic services; the remaining 10 percent take basic service only. A small percentage of cable operators offer basic service but not expanded basic service, locating all cable programming services on the basic service tier except for premium and pay-per-view channels. Finally, basic and expanded basic services refer predominately to analog service, but may be digital when the cable system is a fully-digital system.

6. In addition to monthly cable rates for basic and expanded basic services, the Survey sought information on number of channels in order to determine how much subscribers pay on a per channel basis. The Survey also collected information on monthly charges for equipment, consisting of a television set-top converter and remote control. The Survey, further, gathered information at the cable system level on other factors that may affect cable rates and competition in the multi-channel video programming distribution market, including: (1) number of cable subscribers; (2) number of digital cable service subscribers; (3) number of cable Internet access subscribers; (4) number of telephony subscribers; (5) cable system capacity in MHz; (6) cable programming revenues; (7) cable programming costs; and (8) system operating costs. Below, we summarize the major findings of the Survey.

II. SUMMARY OF FINDINGS

7. *Average rate changes for all communities.* The Survey shows that the average monthly rate for cable service increased by 5.4 percent, from \$42.99 to \$45.32, over the 12 months ending January 1, 2004. This increase is lower than the 7.8 percent increase for the year ending January 1, 2003, and the 7.5 percent 5-year average annual rate of change over the period beginning July 1, 1998 and ending on January 1, 2004.⁹ The average number of channels on basic and expanded basic increased from 67.5 to 70.3 channels, a 4.1 percent increase for the year ending January 1, 2004, which is lower than the 6.3 percent 5-year average. To account for changes in the number of channels, we calculated average price per channel.¹⁰ The price per channel increased by 1.2 percent, from 65.2 cents per channel to 66.0 cents per channel, compared with the 5-year average of 0.4 percent.

8. The monthly cable rate consists of both programming and equipment charges and the measured annual rate of increase reflects individual changes in these components. Examining the overall 5.4 percent increase as a breakdown of its components, we observe: (1) a 5.4 percent increase in the programming charge, from \$38.95 to \$41.04, which is lower than the 7.4 percent 5-year average; and (2) a

⁷ Expanded basic service typically meets two criteria among the cable programming service tiers that a cable operator may offer: (1) it is the tier with the greatest number of channels; and (2) after the basic tier, it is the tier with the highest number of subscribers.

⁸ Herein, "local channels" refer to: (1) local broadcast stations carried either through must-carry requirement or retransmission agreement; (2) PEG access; (3) commercial leased access; and (4) other channels of local origination or that cover issues that, predominately, affect the specific community, county, or state. "Satellite channels" refer to, primarily, nationally-delivered cable networks that are, predominately, delivered by satellite to the cable headend, but also include regional news or sports networks that, in a few cases, are delivered terrestrially.

⁹ Throughout the Report, the "5-year average" refers to the compounded annual rate of change during the five and one-half year period starting July 1, 1998 and ending on January 1, 2004.

¹⁰ We calculate the price per channel by dividing the monthly cable rate by the number of channels. Ideally, when calculating price changes, we would like to take into account changes in the quantity and quality of service provided. In the case of cable rates and quality, however, that is difficult to do because there is no readily available measure of service and programming quality.

5.9 percent increase in the equipment charge, from \$4.04 to \$4.28, which is lower than the 9.1 percent 5-year average. Regarding individual programming tiers, the charge for basic service increased 2.6 percent, from \$13.45 to \$13.80 (compared with a 5-year average of 2.6 percent), and the expanded basic charge increased 6.8 percent, from \$25.50 to \$27.24 (compared with a 5-year average of 10.4 percent).

9. The Bureau of Labor Statistics ("BLS") publishes a Consumer Price Index ("CPI") that measures price inflation related to all goods and services for all urban consumers.¹¹ By this measure, inflation increased by 1.1 percent over the 12 months ending January 2004, and by an average of 2.1 percent over the past five years. BLS also publishes price indices for many components of the overall CPI, including a price index for a basket of cable services ("cable CPI").¹² The cable CPI increased by 3.8 percent over the year ending January 2004, and by an average of 4.6 percent over the past five years. Because it covers a different mix of services, the cable CPI cannot be compared directly with the results of our Survey.¹³

10. *Average rate changes for noncompetitive communities.* For the noncompetitive group (communities without an effective competition finding), the monthly cable rate increased by 5.6 percent, from \$43.14 to \$45.56, for the year ending January 1, 2004.¹⁴ This increase is lower than the increases of 7.9 percent and 7.5 percent, respectively, for the prior year and the 5-year average. The number of channels on basic and expanded basic increased from 67.3 to 70.1 channels, a 4.2 percent increase for the year ending January 1, 2004, which is lower than the 6.3 percent 5-year average. The price per channel increased by 1.2 percent, from 65.7 cents per channel to 66.5 cents per channel, compared with a 5-year average increase of 0.4 percent.

11. *Average rate changes for competitive communities.* For the competitive group (the communities where effective competition was found to be present), the monthly cable rate increased by 3.6 percent, from \$40.99 to \$42.48, for the year ending January 1, 2004. This increase is lower than the 5.3 percent annual increase for the prior year and the 7.4 percent 5-year average. The number of channels on basic and expanded basic increased from 69.7 to 72.5 channels, a 4.0 percent increase for the year ending January 1, 2004, compared with the 5.5 percent 5-year average. The monthly price per channel decreased from 60.1 cents per channel to 59.9 cents per channel, a decrease of 0.3 percent, compared with the 5-year average increase of 0.9 percent.

12. *Competitive differential.* The competitive differential in monthly cable rates (the percentage difference between the noncompetitive group and the competitive group) was 7.3 percent on January 1, 2004. The competitive differential in the price per channel was 11.0 percent. The degree of difference varied by competitive subgroup. The highest differentials were associated with wireline overbuild competition. For communities in this subgroup, the monthly cable rate and price per channel were, respectively, 15.7 percent lower and 27.2 percent lower than those averages for the noncompetitive group.

¹¹ BLS, All Urban Consumers, U.S. City Average (data extracted August 17, 2004), Series ID CUUR0000SA0, All Items Less Food and Energy, Base Period 1982-84=100 (CPI).

¹² BLS, All Urban Consumers, U.S. City Average (data extracted August 17, 2004), Series ID CUUR0000SERA02, Cable and Satellite Television and Radio Service, Base Period December 1983=100 (Cable CPI). This index predominately reflects cable service although it includes elements of satellite television and radio service.

¹³ First, the Cable CPI includes all cable television services, while the monthly cable rate consists of basic service, expanded basic, and equipment. Second, because the CPI measures change in what consumers pay for a fixed basket of goods and services, BLS adjusts the cable CPI to reflect estimated changes in cable services.

¹⁴ Throughout this Report, there is only a slight difference, if any, in the overall average and the average for the noncompetitive group. This is because the group of operators that have received a specific Commission "effective competition" finding represents a relatively small group of cable subscribers, an estimated eight percent of the total nationwide, and thus there is only a slight effect from this group on the overall average.

13. Section III discusses the survey methodology. Section IV describes survey findings and provides summary tables. These findings include average monthly cable rates and other averages as of January 1, 2004, as well as the annual rate of change in those averages. Section V presents additional analysis. Section VI presents our conclusions. Attachment 1 provides details on the communities in each sample group and subgroup. Other detailed statistics can be found in Attachments 2 through 19.

III. SURVEY METHODOLOGY

A. Sampling Procedure

14. Attachment 1 provides information related to the sample selection process. To estimate the levels of monthly cable rates, we selected a random sample of cable communities. We divided communities into two groups – the noncompetitive group (those without a finding of effective competition) and the competitive group (those deemed to face effective competition) -- and selected a sample from each group. To determine the number of observations needed for statistical precision in our samples, we applied a statistical formula.¹⁵ Based on this formula, the noncompetitive sample size equals 415 of the 32,510 noncompetitive communities, and the competitive sample size equals 250 of the 997 competitive communities.¹⁶ To make these samples representative with respect to the typical subscriber and to gain statistical precision, we used subscriber weights in selecting the samples. In addition, to represent all types of competition, we divided or 'stratified' the competitive sample into subgroups or 'strata'.¹⁷

15. To select the 415 observations from the group of noncompetitive communities, we assigned each community a weight depending on the size of the cable system serving the community.¹⁸ A sample that was not stratified by system size would have placed a disproportionately greater emphasis on small cable systems that serve a small percentage of subscribers nationwide. Each system was given a weight equal to its percentage of the total of all cable subscribers nationwide. Because a system may serve more than one community, we also assigned a weight to each community within the cable system. Each community's weight depended on the number of subscribers in the community relative to the other communities in the cable system. Therefore, the selection probability for any community depended on both the system weight and community weight.

16. In the competitive sample, we included each category of effective competition. From the wireline overbuild category we chose one community from each effective competition filing, and we selected both the incumbent and rival cable operators. If the finding involved multiple communities, we selected one community at random depending on the number of subscribers relative to all communities in the filing. We used this same procedure to select for the DBS stratum. The remaining observations were allocated among the wireless overbuild and low-penetration test categories, in a manner that produced the smallest standard error considering historical price variance in each subgroup.¹⁹ Because communities in

¹⁵ See B. J. Mandel, *Statistics for Management* (1984) at 258. This formula requires the user to choose a limit on allowable error in terms of the degree and probability that the average for the sample of prices may differ from the actual price average. We limited the allowable error to within 50 cents of actual price with a 95-percent probability.

¹⁶ The competitive sample includes a relatively higher percentage of competitive communities, because this group is relatively small and the sampling formula requires a minimum number for statistical precision.

¹⁷ For an explanation of stratified sampling methods, see, e.g., G. W. Snedecor and W. G. Cochran, *Statistical Methods*, 7th ed. (1980) at 435-59 (Snedecor and Cochran).

¹⁸ System size equals total subscribers in the communities served from the same cable headend. A cable headend is a facility for receiving television signals for processing and distribution over the cable television system consisting of one or more communities. The Commission assigns each cable headend a physical unit identifier and each community served by that headend a community unit identifier. See 47 U.S.C. § 76.1801.

¹⁹ See Snedecor and Cochran at 464.

the wireless overbuild category tend to have similar prices, the sampling formula requires few sample observations. We adjusted this allocation upward, however, to 10 selections to ensure that we had a sufficient number of observations for statistical precision. Of the 250 competitive sample observations, we selected: (a) 66 of the 122 wireline overbuild incumbent cable operators; (b) 58 of the 114 rivals among the wireline overbuild rival cable operators; (c) 56 of the 474 DBS communities; (d) 30 of the 175 wireless overbuild communities; and (e) 40 of the 112 low-penetration test communities.

17. We asked cable operators to download, complete, and return a Survey questionnaire via the Internet for each of their communities in the sample. We requested data as of January 1, 2004, and limited amounts of data as of January 1, 2003 and January 1, 2002.²⁰ Cable operators returned 661 of the 665 questionnaires, a response rate of 96 percent. Of the 24 non-responses, one-half resulted from the cable operator having discontinued service in the community as a result of merger, sale, or transfer of operation. Cable operators returned questionnaires for 406 of the 415 communities in the noncompetitive sample and 235 of the 250 communities in the competitive sample for response rates of 98 percent and 94 percent, respectively. We reviewed the questionnaires for completeness and apparent accuracy of data. When a response to a question was incomplete or out-of-trend, we asked that cable operator to check its answer and revise the response if necessary.

18. Using these Survey responses, we calculated statistical averages for each question on the questionnaire. First, we calculated averages for each competitive category. Second, to compute averages for the competitive group, we assigned each competitive category a weight corresponding to our estimates of its share of total subscribers. Third, we calculated averages for the noncompetitive group. Weights were not needed to calculate these averages as the sampling probability was on the basis of number of subscribers. Finally, to compute the weighted average of both groups combined, we assigned weights according to each group's share of total subscribers.²¹

B. Survey Accuracy

19. Sample statistics are subject to both sampling and non-sampling error. Statistical sampling is a way of estimating the unknown characteristics of an entire population by examining a random sample that is representative of that population. Because this Report is based on a sample of cable operators, the averages we report probably do not match exactly the averages that would result if we had surveyed all cable operators. If it were possible to survey all cable operators we might increase the accuracy of the report, but we would also increase the cost of the Survey. The number of cable communities we selected for our sample strikes a reasonable balance between accuracy and cost.

20. The difference between the true average and our sample average (or "standard error" of the mean) depends on both sample size and the degree of variability inherent in the statistics being studied, in this case monthly rates that cable operators charge. We can estimate this standard error from the Survey data, and use it to express a degree of confidence that the true average falls within a range around our sample average. This degree of confidence is usually expressed as assurance that in 95 out of 100 similar samples, the true average will fall within the stated range (the "95-percent-confidence interval").²² We report standard errors for our estimates of average monthly rates in the Attachments, which can be used to

²⁰ In prior Surveys we collected data as of July 1.

²¹ The method we use for each group equals the average monthly rate calculated for each stratum times the percent of subscribers in that stratum. See W. E. Deming, *Some Theory of Sampling* (1950) at 135-211.

²² This "95-percent confidence interval" is the range surrounding the sample average plus or minus 1.955 multiplied by the standard error. For example, the average monthly rate for programming and equipment as of January 1, 2004 is \$45.32 and the standard error is 30 cents, as shown in Attachment 2. We estimate at a 95-percent confidence level that the true average lies between \$44.72 and \$45.92. We arrive at the lower end of the range by subtracting $1.955 \times \$0.30$ from our estimated average of \$45.32. We arrive at the upper end by adding $1.955 \times \$0.30$ to \$45.32.

calculate the 95-percent confidence interval for specific averages. In addition, these standard errors can be used to identify whether percent differences in monthly cable rates, either over time or between the competitive and noncompetitive groups, are statistically significant at a 95-percent confidence level.

21. In addition to error inherent in the process of sampling, non-sampling errors may occur from various sources. Non-sampling error can occur for various reasons including errors made by survey respondents, and errors in the survey methodology, data collection, and data processing. As in previous surveys, we weighted each community using FCC Form 325 as of 1994, the most recent data available on subscribers in all communities, together with information gathered from effective competition filings. Because it is likely that the percentage growth in subscribers tends to be evenly distributed across all systems, the 1994 weights serve as a reasonable, although imperfect, approximation of current weights.

22. Our sampling methodology may change from survey to survey in order to improve design and to reflect changes in industry conditions. Even though we made several changes to our methodology for this Survey, we believe that results across surveys as reported in Attachment 4 are comparable in terms of the trends they show. This is particularly true for the 5-year compound average rates of change. In previous surveys, in any stratum we selected communities by simple random sampling. In this Survey, the probability of selection depended on the size of the community relative to other communities. Also, in previous surveys, we defined equipment as an analog converter and remote control unit. In this Survey, for cable operators that no longer offer an analog converter, equipment is defined as a digital converter and remote control.²³

C. Variables

23. From the Survey responses, we calculated averages for monthly cable rates and price per channel, as described below:

Average monthly rate for basic service and expanded basic service. This is the average monthly rate for programming services. It excludes additional charges that subscribers may incur for mini-tiers of programming, premium channels, pay-per-view including video on demand, digital programming, cable equipment, and installation charges.

Average monthly charge for equipment. This is the monthly charge paid by subscribers for an analog addressable converter plus a remote control. If the cable operator does not offer an analog converter, it is the price of a digital converter and remote control.²⁴

Average monthly rate. This is the sum of the average monthly rate for programming and equipment. It represents the rate that a typical subscriber pays on average for basic service, expanded basic service, and a converter and remote control.

Average number of channels. This variable is the average number of channels on the basic and expanded basic tiers. This variable excludes channels on mini-tiers, as well as premium channels, pay-per-view including video on demand, and digital programming.

Average monthly rate per channel. This variable is the average monthly rate divided by the

²³ This may tend to increase the equipment charge relative to previous surveys, but to some extent the higher cost of digital equipment is already build into the cost of analog equipment. This is because cable operators that are subject to price regulation are permitted to average the cost of equipment, including analog and digital converters.

²⁴ Some cable operators report that they no longer lease an analog addressable converter, because they have fully migrated premium and pay-per-view channels to digital service. We also note that a few communities in the Survey use channel filters instead of leasing a set-top converter. A filter installed on the cable equipment outside the home blocks the specific channel until the device is removed. In the case of channel filters, the converter price is zero, because no monthly charge is associated with the filters.

average number of channels.²⁵

IV. SURVEY RESULTS

A. Average Monthly Rates

24. Table 1 shows that between January 1, 2003 and January 1, 2004 the average monthly rate for programming and equipment increased by 5.4 percent, from \$42.99 to \$45.32. This rate of increase was lower than the 5-year average of 7.5 percent. The combined number of channels on the basic and expanded basic tiers increased by 4.1 percent, compared with the 5-year average increase of 6.3 percent. The average rate per channel increased by 1.2 percent, slightly higher than the 5-year average of 0.4 percent.

Table 1 Monthly Cable Rates and Price Per Channel					
Service Elements	Average		Annual Percent Change		
	Jan. 1, 2004	Jan. 1, 2003	Jan. 1, 2004	Jan. 1, 2003	5-Year Average
Basic Service	\$13.80	\$13.45	2.6%	2.6%	2.6%
Expanded basic service	\$27.24	\$25.50	6.8%	10.8%	10.4%
Basic and expanded basic	\$41.04	\$38.95	5.4%	7.8%	7.4%
Converter & remote control	\$4.28	\$4.04	5.9%	7.2%	9.1%
Programming & equipment	\$45.32	\$42.99	5.4%	7.8%	7.5%
Number of channels	70.3	67.5	4.1%	---	6.3%
Average rate per channel	\$0.660	\$0.652	1.2%	---	0.4%

Source: Attachments 2, 3, and 4. Annual percent change is the change as of the date shown compared to one year earlier.

25. The above changes reflect the price of basic service, expanded basic service, and equipment consisting of a converter and remote control. Between January 1, 2003 and January 1, 2004, the average rate for basic service increased by 2.6 percent, from \$13.45 to \$13.80. The average rate for expanded basic service increased by 6.8 percent, from \$25.50 to \$27.24. The average rate for equipment increased by 5.9 percent, from \$4.04 to \$4.28.

26. Table 2 compares general consumer price indices with the average monthly rate for programming and equipment as well as changes in the price per channel. BLS publishes the CPI which measures price inflation related to all goods and services.²⁶ By this measure, inflation increased by 1.1 percent over the 12 months ending January 2004, and by an average of 2.1 percent over the past five years. BLS also publishes price indices for many components of the overall CPI including a cable CPI.²⁷ The cable CPI increased by 3.8 percent over the 12 months ending January 2004, and by an average of 4.6

²⁵ The value of cable services can be measured in various ways. Some analysts suggest that accounting for the number of channels subscribers receive, along with the respective per channel rate, appropriately measures value. Alternatively, others suggest that subscribers may not value an increase in the number of channels in direct proportion to the number of channels added, and thus the additional channels may have a declining marginal value. Because of the difficulty of obtaining consumer valuation data, our Survey did not seek information on how consumers value the channels they receive, or how they would value programming tiers if given the option of receiving fewer channels or different channels than those offered.

²⁶ See note 11.

²⁷ See note 12.

percent over the past five years. Because it covers a different mix of services, the cable CPI cannot be compared directly with the results of our Survey.²⁸

Table 2 Percent Change in Monthly Cable Rate and Consumer Price Index				
Annual Percent Changes	FCC Cable Price Survey		Consumer Price Index	
	Monthly Cable Rate	Price Per Channel	CPI	Cable CPI
January 1, 2004	5.4%	1.1%	1.1%	3.8%
5-year average	7.5%	0.4%	2.1%	4.6%

Source: Table 1 and Attachment 4.

B. Comparison between Noncompetitive and Competitive Groups

27. For the noncompetitive group (communities without an effective competition finding), as shown in Table 3, the monthly cable rate increased by 5.6 percent, to \$45.56, for the year ending January 1, 2004. This increase is lower than the 5-year average increase of 7.5 percent. The number of channels on basic and expanded basic increased to 70.1 channels, a 4.2 percent increase for the year ending January 1, 2004, which is lower than the 6.3 percent 5-year average. The price per channel increased by 1.2 percent, to 66.5 cents per channel, compared with a 5-year average increase of 0.4 percent.

Table 3 Monthly Cable Rates, by Sample Group								
Service Elements	Noncompetitive Group				Competitive Group			
	Jan. 1, 2004	Annual Percent Change			Jan. 1, 2004	Annual Percent Change		
		Jan '04	Jan. '03	5-Yr. Average		Jan '04	Jan. '03	5-Yr. Average
Basic Service	\$13.73	2.6%	2.5%	2.4%	\$14.58	2.3%	4.0%	5.0%
Expanded basic	\$27.56	7.1%	11.1%	10.6%	\$23.59	4.3%	5.9%	8.6%
Programming total	\$41.29	5.6%	8.0%	7.4%	\$38.17	3.6%	5.1%	7.1%
Equipment	\$4.27	6.0%	6.9%	9.1%	\$4.31	4.4%	6.4%	9.7%
Monthly cable rate	\$45.56	5.6%	7.9%	7.5%	\$42.48	3.6%	5.3%	7.4%
Number of channels	70.1	4.2%	---	6.3%	72.5	4.0%	---	5.5%
Price per channel	\$0.665	1.2%	---	0.4%	\$0.599	-0.3%	---	0.9%

Source: Attachments 2, 3, and 5.

28. For the competitive group (communities where effective competition was found to be present), the monthly cable rate increased by 3.6 percent, to \$42.48, for the year ending January 1, 2004. This increase is lower than the 7.4 percent 5-year average. The number of channels on basic and expanded basic increased to 72.5 channels, a 4.0 percent increase for the year ending January 1, 2004,

²⁸ BLS bases the cable CPI on a survey of items on consumers' monthly cable bills, and includes such items as premium services and installation costs, which are not included in our monthly average. When an item shows a significant change in price, and there is a concomitant change in the nature of the product or service, BLS attempts to make a quality adjustment. BLS may increase or decrease the observed price of an item, depending on whether the change deteriorated or improved the quality of the particular product or service. In the case of cable service, the addition of channels is sometimes perceived as an improvement in quality and thus sometimes lowers the reported percentage increase in the price index. See also note 13.

which is lower than the 5.5 percent 5-year average. The monthly price per channel decreased by -0.3 percent, to 59.9 cents, compared with a 0.9 percent 5-year average rate of increase.

29. Table 4 shows the percentage difference in monthly cable rates between the noncompetitive group and the competitive group ("competitive differential") as of January 1, 2004. The competitive differential in monthly cable rates is 7.3 percent (this is the difference in monthly cable rates shown in Table 3, equal to \$45.56 and \$42.48, respectively, for the noncompetitive and competitive groups, expressed as a percentage of rates for the competitive group). The competitive differential in price per channel equals 11.0 percent. The degree of difference varied by competitive subgroup. The highest differentials were associated with wireline overbuild competition. For communities in this subgroup, the monthly cable rate and price per channel were, respectively, 15.7 percent lower and 27.2 percent lower than those averages for the noncompetitive group.

Table 4 Competitive Differentials, as of January 1, 2004 *					
Service Elements	Competitive Subgroups Combined	Competitive Subgroups			
		DBS **	Low Penetration	Wireline Overbuild	Wireless Overbuild **
Monthly cable rate	7.3%	3.7%	7.5%	15.7%	-1.0%
Number of channels	-3.3%	-0.6%	12.8%	-5.6%	-1.4%
Price per channel	11.0%	2.6%	-5.7%	27.2%	4.6%

* Percent that the noncompetitive group is higher or lower than the competitive group in price. ** These averages include cable system prices in communities with an Effective Competition finding based on DBS or wireless competition, but not the prices charged by the competing DBS or wireless system. *Source:* Attachments 2, 3, and 6.

C. Change in Monthly Revenue and Expense per Subscriber

30. The Survey collected information on cable system operating revenues and expenses related to all cable services for years 2002 and 2003. These services include cable television, cable Internet access, cable telephony, installation charges, advertising, and miscellaneous revenues and expenses. The Survey also collected information on programming expenses for basic and expanded basic service as a component of total operating expense. This includes changes in fees for existing programming as well as additional fees for new programming paid to network programmers and broadcasters. The Survey did not include separate revenue and expense questions for cable television service because it would have required assumptions regarding how to distribute common costs across cable system products. For the same reason, information on corporate overhead and capital expenses is not included.²⁹

31. In this report we have not attempted to associate rate changes with specific cost changes. The nature of cable service has changed significantly in recent years with the emergence of digital cable, Internet access, and telephony as important new services so that these new services now represent significant sources of cable system revenues and costs. A substantial portion of these costs are incurred to support all system services jointly and, therefore, cannot be attributed directly to basic and expanded basic cable service. In the absence of a uniform system of accounts and cost allocation standards, there is no uniform way to allocate these joint costs to specific lines of business or service for purposes of statistical analysis. Moreover, to provide a complete picture, it would be necessary to take into account revenue changes that might offset increases in costs. Thus, from a survey of this nature, there is no way to determine which costs are driving rate increases.

²⁹ Therefore, Table 5 does not include capital expenses related to cable system upgrades and new system builds. See Section F of this Report in reference to capital expenditures.

32. Table 5 reports cable system operating revenue and expense per month on a per subscriber basis. Monthly revenue increased by \$5.88 on average. Monthly operating expense per subscriber increased by \$3.24. As noted above, total revenue and expense are not specifically attributed to cable television service. However, the Survey collected information on programming expense, one of the components of total operating expense. Of the \$3.24 increase in operating expense per subscriber, \$1.06 or one-third of the total was attributable to programming expense for basic and expanded basic cable television service. Of this \$1.06 increase in basic and expanded basic programming expense per subscriber, \$0.39, or about one-third of the total, is a result of increased sports programming expenses. Finally, Table 5 shows that relative to the changes for the noncompetitive group, the competitive group experienced a relatively low increase in revenue and a relatively high increase in expense.

Table 5 Change in Monthly Operating Revenue and Expense per Subscriber Excluding Corporate Overhead and Capital Expenses All Cable Services, 2002 to 2003						
Sample Groups	All Cable System Services including Television, Internet Access, and Other		Change in Monthly Programming Expense per Subscriber for Basic and Expanded Basic Service, as a Component of System Expense in Column C			
	Change in Monthly Revenue per Subscriber	Change in Monthly Expense per Subscriber *	News	Sports	Other	Total
A	B	C	D	E	F	G
Sample groups combined	\$5.88	\$3.24	\$0.05	\$0.39	\$0.62	\$1.06
Noncompetitive group	\$5.92	\$3.22	\$0.05	\$0.38	\$0.62	\$1.05
Competitive group	\$5.43	\$3.48	\$0.07	\$0.44	\$0.70	\$1.21

Source: Attachments 1 and 10. * Column C does not include the following expenses: Corporate overhead, depreciation and amortization, interest expense, losses from sale or disposition of property, and extraordinary expenses.

D. Installation Charges for Cable Television Service

33. Table 6 shows installation charges for cable television service. For an unwired residence, the average installation charge was \$45.03, a 2.5 percent increase during the year ending January 1, 2004. For a pre-wired residence, the average charge was \$31.25, representing a 1.0 percent annual increase. For service reconnection, the average charge was \$28.60, representing a 2.8 percent annual increase.

Table 6 Installation Charges						
Sample Groups	Unwired Residence		Pre-Wired Residence		Reconnection of Service	
	Jan. 1, 2004	Percent Change	Jan. 1, 2004	Percent Change	Jan. 1, 2004	Percent Change
Sample groups combined	\$45.03	2.5%	\$31.25	1.0%	\$28.60	2.8%
Noncompetitive group	\$45.19	2.5%	\$31.24	1.0%	\$28.71	3.0%
Competitive group	\$43.25	3.9%	\$31.47	2.5%	\$27.43	1.3%

Source: Attachment 11. Percent change is the compound annual change from July 1, 2002 to January 1, 2004.

34. Table 7 shows the competitive differential in installation charges, in terms of the percentage that the noncompetitive group may exceed each competitive group and subgroup. For an unwired residence, the noncompetitive group charged 4.5 percent higher, ranging from 5.1 percent higher than the subgroup facing wireline overbuilds to 0.9 percent less than the subgroup facing wireless overbuilds. For a pre-wired residence, the noncompetitive group charged 0.7 percent less, ranging from 0.3 percent higher than wireless overbuilds to 10.5 percent less than the low penetration subgroup. For service reconnection,

the noncompetitive group charged 4.7 percent higher, ranging from 7.3 percent higher than the subgroup facing wireline overbuilds to 5.4 percent less than the low penetration subgroup.

Table 7 Competitive Differentials in Installation Charges *							
Installations	Competitive Subgroups Combined	Competitive Subgroup					
		Wireline Overbuild			DBS Overbuild **	Wireless Overbuild **	Low Penetration
		Weighted Average	Incumbent	Rival			
Unwired residence	4.5%	5.1%	1.8%	22.8%	9.7%	-0.9%	0.3%
Pre-wired residence	-0.7%	-1.0%	0.3%	-6.4%	-3.6%	5.1%	-10.5%
Service reconnection	4.7%	7.3%	7.7%	5.7%	-2.2%	11.3%	-5.4%

* Percent that the noncompetitive price is higher or lower than the competitive price as of January 1, 2004. ** These averages include cable system prices in communities with an Effective Competition finding based on DBS or wireless competition, but not the prices charged by the competing DBS or wireless system. Source: Derived from Attachment 11.

E. Average Monthly Rates for Digital Programming Service

35. Table 8 shows the monthly price of the major digital tier and a digital converter and remote control as of January 1, 2004. Total price increased by 5.6 percent, from \$15.20 to \$16.05. The number of channels on the major digital tier increased by 15.3 percent, from 27.4 channels to 31.6 channels, and the price per channel declined by 14.5 percent, from 68.2 cents to 58.3 cents. Prices for the noncompetitive group and competitive group, respectively, were \$16.09 and \$15.58, representing a percentage difference of 3.4 percent. On a price per channel basis, the respective prices for the noncompetitive group and the competitive group were 58.8 cents and 52.4 cents, representing a competitive differential of 12.2 percent.

Table 8 Average Monthly Rates for Major Digital Tier										
Sample Groups	Digital Tier ³⁰		Digital Converter & Remote		Total Monthly Rate		Number of Channels		Price Per Channel	
	Jan. 1, 2004	Percent Change	Jan. 1, 2004	Percent Change	Jan. 1, 2004	Percent Change	Jan. 1, 2004	Percent Change	Jan. 1, 2004	Percent Change
Sample groups combined	\$10.72	6.3%	\$5.33	4.1%	\$16.05	5.6%	31.6	15.3%	\$0.583	-14.5%
Noncompetitive group	\$10.79	5.7%	\$5.30	4.3%	\$16.09	5.2%	31.4	15.0%	\$0.588	-14.3%
Competitive group	\$9.93	15.5%	\$5.66	1.3%	\$15.58	9.8%	33.9	19.4%	\$0.524	-17.6%

Source: Attachments 12 and 13. Percent change compares averages on January 1, 2003 with those on January 1, 2004.

F. Operating Capacity, Digital Programming, and Advanced Services

36. As of January 1, 2004, the average cable system had a capacity of 734 MHz for the noncompetitive and competitive groups combined and for each of these groups individually. This represents a 7.3 percent increase over a 5-year period and a 1.3 percent increase over the previous year. Only 14 percent of subscribers were served by systems below 750 MHz, down from 54 percent on July 1, 1999. About 60 percent of subscribers were served by systems at 750 MHz, and 26 percent of subscribers were served by systems above 750 MHz, with most of those reporting a capacity of 870 MHz.

³⁰ Some communities were not included in the 2003 averages, not offering a digital tier as of that date. Limiting the results to only those communities that offered service in both years, the percent change in the digital tier charge was 2.7 percent for the sample groups combined and 2.8 percent and 4.7 percent, respectively, for the noncompetitive and competitive groups.

Table 9 Cable System Operating Capacity						
Sample Groups	Capacity			Percent of Subscribers Served by Systems With Capacity of		
	MHz	Annual Percent Change		212 to 749 MHz	750 MHz	751 to 870 MHz
		Jan. 1, 2004	5-Year Average			
January 1, 2004						
Sample groups combined	734	1.3%	7.3%	14.3%	59.6%	26.1%
Noncompetitive group	734	1.2%	7.4%	14.3%	59.3%	26.4%
Competitive group	734	1.8%	3.9%	14.5%	62.4%	23.1%
July 1, 1999						
Sample groups combined	534	---	---	53.9%	44.4%	1.7%
Noncompetitive group	532	---	---	54.2%	44.0%	1.8%
Competitive group	619	---	---	44.1%	55.9%	0.0%

Source: Attachment 15.

37. Cable system upgrades enable cable operators to provide more channels and also facilitate the offering of digital programming, Internet access, and telephony.³¹ As of January 1, 2004, 97 percent of subscribers were served by systems offering digital programming, with digital subscribers equal to 35 percent of basic cable subscribers in those systems. Ninety-five percent of subscribers were served by systems offering cable Internet access, with cable Internet subscribers equal to 26 percent of basic cable subscribers in those systems. Twenty-nine percent of subscribers were served by systems offering telephony, with telephone subscribers equal to 13 percent of basic cable subscribers in those systems.

Table 10 Percent of Cable Subscribers Offered Digital Programming and Advanced Services and Percent of Those Subscribers Taking Services ³² as of January 1, 2004						
Sample Group	Digital Programming		Cable Internet Access		Telephony	
	Percent Offered	Of Those, Percent Subscribing	Percent Offered	Of Those, Percent Subscribing	Percent Offered	Of Those, Percent Subscribing
Sample groups combined	97.3%	35.2%	94.8%	26.1%	28.5%	12.9%
Noncompetitive group	97.3%	34.9%	94.8%	26.0%	28.8%	12.1%
Competitive group	96.9%	37.7%	93.9%	26.7%	24.9%	22.0%

Source: Attachment 16.

³¹ In addition to the provision of new services, higher capacity typically results in additional cable channels, and may result in improved signal quality and system reliability. With respect to capital improvements, since 1996, cable operators have collectively invested approximately \$84.5 billion on upgrading their cable plant and networks. Sources: 1996 -- Kagan World Media, *Broadband Cable Financial Databook 2001* at 138; 1997 -- Kagan World Media, *Broadband Cable Financial Databook 2002* at 144; 1998-2002 -- Kagan World Media, *Broadband Cable Financial Databook 2003* at 142; 2003 -- Kagan World Media, *Broadband Cable Financial Databook 2004* at 154. Kagan projects 2004 plant and network upgrades to reach \$9.5 billion.

³² While this table shows advanced services customers as a percent of basic cable subscribers, the percentage of basic cable subscribers subscribing to Internet access and telephony is lower than those percentages. This is because some cable Internet and telephony customers do not subscribe to cable television service. As of July 2002, an estimated 3.4% of subscribers to cable Internet access were not basic cable television subscribers. A comparable figure for cable telephony is unavailable. See *Statistical Report on Average Rates for Basic Service, Cable Programming Service, and Equipment*, 18 FCC Rcd 13284 n.16 (2003).

G. Cable Television Channels

38. Table 11 shows that the total number of analog channels increased by only 0.3 percent, from 73.1 channels to 73.3 channels, while digital channels increased by 10.0 percent, from 136.4 channels to 150.1 channels. Many cable operators offered fewer analog premium, pay-per-view, and mini-tier channels, shown by the number of analog channels in those categories declining by almost half, from 5.6 channels to 3.0 channels. Correspondingly, the number of digital premium, pay-per-view (including video on demand), and mini-tier channels increased by 8.7 percent, from 109.0 channels to 118.5 channels.

Table 11 Number of Channels							
Sample Group	Date	Analog Channels			Digital Channels		
		Basic & Expanded Basic	Premium, Pay, & Mini Tiers	Total	Major Digital Tier	Premium, Pay, & Mini Tiers	Total
January 1, 2004							
Sample groups combined	January 1, 2004	70.3	3.0	73.3	31.6	118.5	150.1
	January 1, 2003	67.5	5.6	73.1	27.4	109.0	136.4
	Percent change	4.1%	-46.4%	0.3%	15.3%	8.7%	10.0%

Source: Attachments 17 and 18.

39. Table 12 compares the number of channels by sample group as of January 1, 2004. The competitive group averaged 2.0 percent more analog channels and 5.6 percent more digital channels, compared to the noncompetitive group.

Table 12 Number of Channels							
Sample Group	Date	Analog Channels			Digital Channels		
		Basic & Expanded Basic	Premium, Pay, & Mini Tiers	Total	Major Digital Tier	Premium, Pay, & Mini Tiers	Total
Comparison between Sample Groups							
Competitive group	January 1, 2004	72.5	2.2	74.7	33.9	123.8	157.7
Noncompetitive group	January 1, 2004	70.1	3.1	73.2	31.4	118.0	149.4
Difference as of 1/1/04	Percent difference	3.4%	-29.0%	2.0%	8.0%	4.9%	5.6%

Source: Attachments 17 and 18.

40. Table 13 shows that as of January 1, 2004, cable operators offered an average of 17 local channels, with the noncompetitive and competitive groups offering the same number of channels. This total consists of 12.2 local broadcast stations; 2.7 public, educational, and governmental channels; 0.8 local leased access channels; and 1.3 other channels of local origin.

Table 13 Number of Local Channels On Basic & Expanded Basic						
Sample Group	Local Broadcast Stations	Public, Educational, & Governmental Access	Local Commercial Leased Access	Total of Local Access Channels	Other Local Channels	Total Local Channels
January 1, 2004						
Sample groups combined	12.2	2.7	0.8	3.5	1.3	16.9
Noncompetitive group	12.2	2.7	0.8	3.5	1.3	16.9
Competitive group	12.3	2.5	0.8	3.3	1.3	16.9
July 1, 1998						
Sample groups combined	11.0	n/a	n/a	3.3	n/a	n/a
Noncompetitive group	12.2	n/a	n/a	3.3	n/a	n/a
Competitive group	11.0	n/a	n/a	2.7	n/a	n/a

Source: Attachment 19. PEG: Public, educational, and governmental access channels. n/a – not available.

V. ADDITIONAL ANALYSIS

41. In addition to comparing cable rates in areas with effective competition to those without, as defined by the statute, we have looked at other ways of measuring the impact of competition. One additional way is to examine whether consumers move to competitors in reaction to increases in cable rates. If they do, then competition should be a viable means of controlling cable rate increases. Commission staff recently examined this question using our cable price survey data. That study (Wise and Duwadi (2005))³³ showed that consumers do react to cable rate increases if they are of a sufficient size. However, not surprisingly, there is some hesitancy among consumers to switch providers in reaction to modest price increases.

42. To evaluate the role that price changes play in consumers' decisions to switch providers, Wise and Duwadi examined DBS penetration, concentrating on how DBS penetration varies in relation to cable rate changes.³⁴ Consumers can be expected to switch from cable to a comparable DBS service if cable prices rise relative to the price of DBS service. However, switching service providers is not costless to consumers. Both cable and DBS charge installation fees, and DBS charges for equipment in some cases. Additionally, there is the time and inconvenience required to research alternative services and to have one installed.³⁵ DBS operators sometime offer long-term contracts in exchange for reduced installation or equipment fees and the long-term nature of these contracts often is viewed by the consumer as a cost of switching. Thus, the potential benefit consumers may gain by switching providers may be offset by these additional costs, which are called "switching costs."

43. Consumers will not switch between comparable products if they perceive the cost of switching to be greater than the differential in price. Wise and Duwadi found evidence that consumers switched from cable to DBS when faced with large cable rate increases, but not when faced with small increases. This finding indicates that consumers are switching to DBS in reaction to increases in cable

³³ See A.S. Wise and K. Duwadi, *Competition between Cable Television and Direct Broadcast Satellite – It's More Complicated than You Think*, FCC Media Bureau Staff Research Paper 2005-01 and International Bureau Working Paper No. 3. (Jan. 2005). The paper analyzes price survey data collected in 2003.

³⁴ Wise and Duwadi (2005) used the per-satellite-channel rate for the most popular package as a proxy for a quality-adjusted cable rate.

³⁵ These learning costs may be substantial, particularly for consumers switching from an older, less-advanced cable service to DBS service.

rates. The study also indicates, however, that switching costs play an important role in consumers' decisions to change MVPDs and may limit or eliminate their willingness to switch providers where the price differential between cable and DBS is less than the perceived switching costs.³⁶

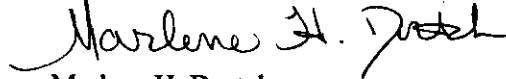
VI. CONCLUSION

44. Cable operators in the communities belonging to the noncompetitive group increased their monthly cable rates by 5.6 percent on average during the time period surveyed. Cable operators in the competitive group increased their monthly cable rates by 3.6 percent. Monthly cable rates for the competitive group were 7.3 percent lower on average than those for the noncompetitive group. The degree of difference varied by competitive subgroup. The highest differentials were associated with wireline overbuild competition.

VII. ADMINISTRATIVE MATTERS

45. It is ORDERED that this Report be issued pursuant to authority contained in Section 623(k) of the Communications Act of 1934, as amended, 47 U.S.C. § 543(k).

FEDERAL COMMUNICATIONS COMMISSION



Marlene H. Dortch
Secretary

³⁶ One analyst states that changes in the market share of total new subscribers between cable and DBS indicates a change in consumer preference between cable and DBS service, but one primarily confined to consumers in the midst of moving to a new home. See *Annual Assessment of the Status of Competition in the Market for the Delivery of Video Programming*, FCC No. 05-13 (adopted Jan. 14, 2005), citing Douglas Shapiro, "What Changed in the Cable-DBS Dynamic in 2Q?," Banc of America Securities, Aug. 27, 2004 at 7.

ATTACHMENT 1 Cable Communities in the Survey						
Sample Groups & Subgroups of Cable Communities	Number of Cable Systems	Median Number of Subscribers	Number of Cable Communities	Percent of Subscribers Nationwide	Number of Communities Sampled	Number of Survey Responses
(A)	(B)	(C)	(D)	(E)	(F)	(G)
Sample Universe	8,859	73,366	33,507	100%	665	641
Noncompetitive Communities	8,793	78,475	32,510	92.07%	415	406
Large systems	312	139,312	7,178	51.75%	225	223
Medium systems	728	38,737	8,176	26.98%	127	126
Small systems	7,753	6,383	17,156	13.34%	63	57
Competitive Communities	296	41,116	997	7.93%	250	235
Wireline competition: incumbents	56	56,362	122	2.51%	66	65
Wireline competition: rivals	33	21,696	114	0.58%	58	50
DBS competition	117	37,515	474	2.35%	56	52
Wireless competition	25	174,918	175	2.14%	30	29
Low penetration test	65	7,234	112	0.35%	40	39

Source: Survey.

Notes –

Column A divides cable communities, as defined by FCC-assigned CUID identifiers, into two groups: (1) communities where operators do not face effective competition (noncompetitive group); and (2) communities where operators are deemed to face effective competition (competitive group). The noncompetitive group is subdivided by size of the cable system serving the community, and the competitive group is subdivided by category of competition. Wireline competition is further divided into subscribers of incumbent cable operators (that petitioned for effective competition status) and subscribers of rival cable-overbuild operators that compete with the incumbents.

Column B is the number of cable systems, as defined by FCC-assigned PSID identifiers, where each cable system may serve more than one cable community. The number of systems in the sample universe is lower than the number derived by adding together the noncompetitive and competitive communities, because some cable systems serve both noncompetitive and competitive communities and are, therefore, counted twice in this table.

Column C shows the median size of systems in each group and subgroup, calculated from Survey data. The median is the number of subscribers for the system in the middle, where half the systems have fewer subscribers and half the systems have more subscribers. The competitive group median is derived by summing the medians of the competitive subgroups after weighting each subgroup by the percentages in Column E. The sample universe median is derived by summing the medians of the noncompetitive group and competitive group after weighting each of those groups by the percentages in Column E.

Column D is the number of cable communities. (Cable systems in Column A may serve more than one community).

Column E is an estimate of cable subscribers in each group and subgroup as a percent of the sample universe total. These percents are the weights used to derive weighted averages of the Survey data for the competitive group, and for the noncompetitive and competitive groups combined.

Column F is the number of communities sampled.

Column G is the number of communities sampled for which cable operators returned a Survey questionnaire.

ATTACHMENT 2 Monthly Cable Rates					
Service Elements	Weighted Average of Sample Groups	Sample Groups		Difference Between Sample Groups	
		Noncompetitive	Competitive	Dollars	Percent
Jan. 1, 2004					
Basic Service Standard error	\$13.80 0.33	\$13.73 0.29	\$14.58 0.72	-\$0.85	-5.8%
Expanded basic service Standard error	\$27.24 0.43	\$27.56 0.38	\$23.59 1.01	\$3.97	16.8%
Programming total Standard error	\$41.04 0.26	\$41.29 0.21	\$38.17 0.78	\$3.12	8.2%
Converter & remote control Standard error	\$4.28 0.12	\$4.27 0.11	\$4.31 0.30	-\$0.04	-0.1%
Programming & equipment Standard error	\$45.32 0.30	\$45.56 0.26	\$42.48 0.86	\$3.08	7.3%
Jan. 1, 2003					
Basic service Standard error	\$13.45 0.33	\$13.38 0.29	\$14.25 0.74	-\$0.87	-6.1%
Expanded basic service Standard error	\$25.50 0.42	\$25.73 0.36	\$22.61 1.03	\$3.12	13.8%
Programming total Standard error	\$38.95 0.25	\$39.11 0.21	\$36.86 0.75	\$2.25	6.1%
Converter & remote control Standard error	\$4.04 0.12	\$4.03 0.10	\$4.13 0.29	\$0.29	-2.4%
Programming & equipment Standard error	\$42.99 0.29	\$43.14 0.24	\$40.99 0.81	\$2.15	5.2%
Jan. 1, 2002					
Basic Service Standard error	\$13.11 0.32	\$13.06 0.29	\$13.70 0.70	-\$0.64	-4.7%
Expanded basic service Standard error	\$23.01 0.40	\$23.15 0.35	\$21.36 1.00	\$1.79	8.3%
Programming total Standard error	\$36.12 0.24	\$36.21 0.20	\$35.06 0.72	\$1.15	3.4%
Converter & remote control Standard error	\$3.77 0.11	\$3.77 0.09	\$3.88 0.27	\$0.11	2.8%
Programming & equipment Standard error	\$39.89 0.29	\$39.98 0.23	\$38.94 0.79	\$1.04	2.7%

Source: Survey.

ATTACHMENT 3 Number of Channels And Price per Channel					
Service Elements	Weighted Average of Sample Groups	Sample Groups		Difference Between Sample Groups	
		Noncompetitive	Competitive	Dollar	Percent
Jan. 1, 2004					
Basic service channels	25.7	25.7	25.2	0.5	2.0%
Standard error	0.6	0.5	1.4		
Expanded basic channels	44.6	44.4	47.3	-2.9	-6.1%
Standard error	0.7	0.7	1.7		
Channels total	70.3	70.1	72.5	-2.4	-3.3%
Standard error	0.6	0.55	0.86		
Price per channel	\$0.660	\$0.665	\$0.599	\$0.066	11.0%
Standard error	0.007	0.006	0.016		
Jan. 1, 2003					
Basic service channels	24.4	24.4	24.7	-0.3	-1.2%
Standard error	0.6	0.5	1.3		
Expanded basic channels	43.1	42.9	45.0	-2.1	-4.7%
Standard error	0.7	0.6	1.8		
Channels total	67.5	67.3	69.7	-2.4	-3.4%
Standard error	0.6	0.5	0.9		
Price per channel	\$0.652	\$0.657	\$0.601	\$0.031	5.2%
Standard error	0.007	0.006	0.016		

Source: Survey.

ATTACHMENT 4 Averages for Basic and Expanded Basic Service, 1995 – 2004 Monthly Rates in Dollars, and Number of Channels in Comparison to Consumer Price Index											
Service Elements	July 1995	July 1996	July 1997	July 1998	July 1999	July 2000	July 2001	Jan. 2002	Jan. 2003	Jan. 2004	5-Year Average Change *
Weighted Average of Sample Groups											
Basic service	---	---	11.57	12.00	12.47	12.57	12.84	13.11	13.45	13.80	2.6%
Annual Change **	---	---	---	---	---	---	---	---	2.6%	2.6%	---
Expanded basic	---	---	14.49	15.77	16.93	18.88	20.91	23.01	25.50	27.24	10.4%
Annual Change **	---	---	---	---	---	---	---	---	10.8%	6.8%	---
Programming	---	---	26.06	27.77	29.40	31.45	33.75	36.12	38.95	41.04	7.4%
Annual Change **	---	---	---	---	---	---	---	---	7.8%	5.4%	---
Equipment	---	---	2.42	2.65	2.74	2.97	3.24	3.77	4.04	4.28	9.1%
Annual Change **	---	---	---	---	---	---	---	---	7.2%	5.9%	---
Total	24.34	26.16	28.48	30.42	32.14	34.42	36.99	39.89	42.99	45.32	7.5%
Annual % Change	---	---	---	---	---	---	---	---	7.8%	5.4%	---
No. of channels	43.6	46.3	48.2	50.3	52.4	56.3	59.4	---	67.5	70.3	6.3%
Annual Change **	---	---	---	---	---	---	---	---	---	4.1%	---
Price per channel	0.604	0.618	0.635	0.645	0.64	0.647	0.658	---	0.65	0.66	0.4%
Annual Change **	---	---	---	---	---	---	---	---	---	1.2%	---
Consumer Price Index (CPI)											
CPI	161.1	165.5	169.5	173.3	176.9	181.3	186.2	190.3	191.8	194.0	2.1%
Annual Change	---	---	---	---	---	---	---	---	0.8%	1.1%	---
Cable CPI	201.1	214.9	231.1	246.5	255.4	267.3	279.7	297.3	303.6	315.2	4.6%
Annual Change	---	---	---	---	---	---	---	---	2.1%	3.8%	---

* Refers to the compounded annual rate of change during the five and one-half year period starting July 1, 1998 and ending on January 1, 2004. ** The annual percent change based on results from the Survey.

Sources: Years 2002, 2003, and 2004 are results from the Survey. Years 1995 through 2001 are from previous cable price surveys including: *Statistical Report on Average Rates for Basic Service, Cable Programming Service, and Equipment*, 18 FCC Rcd 13284 (2003); 17 FCC Rcd 6301 (2002); 16 FCC Rcd 4346 (2001); 15 FCC Rcd 10927 (2000); 14 FCC Rcd 8331 (1999); 12 FCC Rcd 22756 (1997); and 12 FCC Rcd 3239 (1997). CPI information: Bureau of Labor Statistics, All Urban Consumers, U.S. City Average (data extracted August 17, 2004), Series ID CUUR0000SA0, All Items Less Food and Energy, Base Period 1982-84=100 (CPI); Series ID CUUR0000SERA02, Cable and Satellite Television and Radio Service, Base Period December 1983=100 (Cable CPI).

ATTACHMENT 5 Averages for Basic and Expanded Basic Service, 1995 – 2004 Monthly Rates in Dollars, and Number of Channels by Sample Group											
Service Elements	July 1995	July 1996	July 1997	July 1998	July 1999	July 2000	July 2001	Jan. 2002	Jan. 2003	Jan. 2004	5-Year Average Change
Noncompetitive Group											
Basic service	---	---	11.63	12.06	12.55	12.62	12.87	13.06	13.38	13.73	2.4%
Annual Change **	---	---	---	---	---	---	---	---	2.5%	2.6%	---
Expanded basic	---	---	14.51	15.82	16.97	18.95	21.02	23.15	25.73	27.56	10.6%
Annual Change **	---	---	---	---	---	---	---	---	11.1%	7.1%	---
Programming	---	---	26.14	27.88	29.52	31.57	33.89	36.21	39.11	41.29	7.4%
Annual Change **	---	---	---	---	---	---	---	---	8.0%	5.6%	---
Equipment	---	---	2.42	2.65	2.73	2.97	3.24	3.77	4.03	4.27	9.1%
Annual Change **	---	---	---	---	---	---	---	---	6.9%	6.0%	---
Total	24.43	26.21	28.56	30.53	32.25	34.54	37.13	39.98	43.14	45.56	7.5%
Annual % Change	---	---	---	---	---	---	---	---	7.9%	5.6%	---
No. of channels	44.0	46.1	47.9	50.1	52.0	56.2	59.2	---	67.3	70.1	6.3%
Annual Change **	---	---	---	---	---	---	---	---	---	4.2%	---
Price per channel	0.600	0.620	0.640	0.650	0.650	0.650	0.661	---	0.657	0.665	0.4%
Annual Change **	---	---	---	---	---	---	---	---	---	1.2%	---
Competitive Group											
Basic service	---	---	10.69	11.12	11.34	11.95	12.43	13.70	14.25	14.58	5.0%
Annual Change **	---	---	---	---	---	---	---	---	4.0%	2.3%	---
Expanded basic	---	---	14.11	15.00	16.44	17.41	19.23	21.36	22.61	23.59	8.6%
Annual Change **	---	---	---	---	---	---	---	---	5.9%	4.3%	---
Programming	---	---	24.80	26.12	27.78	29.59	31.66	35.06	36.86	38.17	7.1%
Annual Change **	---	---	---	---	---	---	---	---	5.1%	3.6%	---
Equipment	---	---	2.35	2.59	2.85	2.90	3.27	3.88	4.13	4.31	9.7%
Annual Change **	---	---	---	---	---	---	---	---	6.4%	4.4%	---
Total	22.88	25.42	27.15	28.71	30.63	32.49	34.93	38.94	40.99	42.48	7.4%
Annual % Change	---	---	---	---	---	---	---	---	5.3%	3.6%	---
No. of channels	38	48.8	53.2	54	57.6	57.5	60.9	---	69.7	72.5	5.5%
Annual Change **	---	---	---	---	---	---	---	---	---	4.0%	---
Price per channel	0.670	0.580	0.550	0.570	0.570	0.605	0.608	---	0.601	0.599	0.9%
Annual Change **	---	---	---	---	---	---	---	---	---	-0.3%	---

* Refers to the compounded annual rate of change during the five and one-half year period starting July 1, 1998 and ending on January 1, 2004. ** The annual percent change based on results from the Survey.

Source: Years 2002, 2003, and 2004 are results from the Survey: Years 1995 through 2001 are from previous cable price surveys including *Statistical Report on Average Rates for Basic Service, Cable Programming Service, and Equipment*, 18 FCC Rcd 13284 (2003); 17 FCC Rcd 6301 (2002); 16 FCC Rcd 4346 (2001); 15 FCC Rcd 10927 (2000); 14 FCC Rcd 8331 (1999); 12 FCC Rcd 22756 (1997); and 12 FCC Rcd 3239 (1997).

ATTACHMENT 6 Comparison between Noncompetitive Group and Competitive Subgroups January 1, 2004					
Service Elements	Noncompetitive Group	Competitive Subgroups			
		DBS *	Low Penetration	Wireline Overbuild	Wireless Overbuild *
Averages January 1, 2004					
Programming	\$41.29	\$40.37	\$38.80	\$35.13	\$40.87
Equipment	27	3.57	\$3.59	\$4.24	\$5.35
Monthly cable rate	56	\$43.94	\$42.39	\$39.37	\$46.22
Number of channels	70.1	70.5	62.1	74.2	72.9
Price per channel	\$0.665	\$0.648	\$0.705	\$0.523	\$0.636
Percent Difference Between Noncompetitive Compared to Competitive					
Programming	---	2.3%	6.4%	17.5%	1.0%
Equipment	---	19.6%	18.9%	0.7%	-20.2%
Monthly cable rate	---	3.7%	7.5%	15.7%	-1.0%
Number of channels	---	-0.6%	12.8%	-5.6%	-1.4%
Price per channel	---	2.6%	-5.7%	27.2%	4.6%
Standard Error of Averages January 1, 2004					
Programming	0.21	0.86	0.89	0.59	0.66
Equipment	0.10	0.23	0.42	0.19	0.22
Monthly cable rate	0.26	0.96	1.11	0.64	0.77
Number of channels	0.55	2.00	2.44	0.92	0.51
Price per channel	0.01	0.02	0.02	0.01	0.01

* These averages include cable system prices in communities with an Effective Competition finding based on DBS or wireless competition, but not the prices charged by the competing DBS or wireless system. *Source:* Survey.

Attachment 7
Monthly Cable Rates and Price Per Channel
by Sample Group and Subgroup
January 1, 2004

Sample Groups & Subgroups	Statistics	Basic & Expanded Basic Service	Equipment	Monthly Cable Rate	Basic & Expanded Basic Channels	Price Per Channel
Sample groups combined	Average	\$41.04	\$4.28	\$45.32	70.3	\$0.660
	<i>Observations</i>	641	641	641	641	641
	<i>Standard error</i>	0.26	0.12	0.31	0.6	0.007
Noncompetitive group	Average	\$41.29	\$4.27	\$45.56	70.1	\$0.665
	<i>Observations</i>	406	406	406	406	406
	<i>Standard error</i>	0.21	0.10	0.26	0.5	0.006
Competitive group	Average	\$38.17	\$4.31	\$42.48	72.5	\$0.599
	<i>Observations</i>	235	235	235	235	235
	<i>Standard error</i>	0.78	0.27	0.88	1.3	0.016
Wireline competition	Average	\$34.56	\$4.24	\$38.80	74.9	\$0.523
	<i>Observations</i>	115	115	115	115	115
	<i>Standard error</i>	0.79	0.27	0.88	1.2	0.014
Wireline incumbent	Average	\$34.15	\$4.52	\$38.67	75.3	\$0.518
	<i>Observations</i>	65	65	65	65	65
	<i>Standard error</i>	0.77	0.28	0.85	1.1	0.013
Wireline rival	Average	\$36.40	\$3.00	\$39.40	72.8	\$0.545
	<i>Observations</i>	50	50	50	50	50
	<i>Standard error</i>	0.88	0.25	1.04	1.5	0.015
DBS competition *	Average	\$40.37	\$3.57	\$43.95	70.5	\$0.648
	<i>Observations</i>	52	52	52	52	52
	<i>Standard error</i>	0.86	0.28	0.95	2.0	0.020
Wireless competition *	Average	\$40.87	\$5.35	\$46.22	72.9	\$0.636
	<i>Observations</i>	29	29	29	29	29
	<i>Standard error</i>	0.66	0.22	0.77	0.5	0.012
Low penetration test	Average	\$38.80	\$3.59	\$42.39	62.2	\$0.705
	<i>Observations</i>	39	39	39	39	39
	<i>Standard error</i>	0.89	0.42	1.08	2.4	0.020

* These averages include cable system prices in communities with an Effective Competition finding based on DBS or wireless competition, but not the prices charged by the competing DBS or wireless system. *Source:* Survey.

Attachment 8
Monthly Cable Rates and Price Per Channel
by Sample Group and Subgroup
January 1, 2003

Sample Groups & Subgroups	Statistics	Basic & Expanded Basic Service	Equipment	Monthly Cable Rate	Basic & Expanded Basic Channels	Price Per Channel
Sample groups combined	Average	\$38.95	\$4.04	\$42.99	67.5	\$0.652
	<i>Observations</i>	<i>641</i>	<i>641</i>	<i>641</i>	<i>641</i>	<i>641</i>
	<i>Standard error</i>	<i>0.25</i>	<i>0.11</i>	<i>0.29</i>	<i>0.6</i>	<i>0.007</i>
Noncompetitive group	Average	\$39.11	\$4.03	\$43.14	67.3	\$0.657
	<i>Observations</i>	<i>406</i>	<i>406</i>	<i>406</i>	<i>406</i>	<i>406</i>
	<i>Standard error</i>	<i>0.21</i>	<i>0.09</i>	<i>0.25</i>	<i>0.5</i>	<i>0.006</i>
Competitive group	Average	\$36.86	\$4.13	\$40.99	69.7	\$0.601
	<i>Observations</i>	<i>235</i>	<i>235</i>	<i>235</i>	<i>235</i>	<i>235</i>
	<i>Standard error</i>	<i>0.75</i>	<i>0.25</i>	<i>0.81</i>	<i>1.3</i>	<i>0.015</i>
Wireline competition	Average	\$33.16	\$4.06	\$37.22	71.2	\$0.528
	<i>Observations</i>	<i>115</i>	<i>115</i>	<i>115</i>	<i>115</i>	<i>115</i>
	<i>Standard error</i>	<i>0.71</i>	<i>0.24</i>	<i>0.76</i>	<i>0.9</i>	<i>0.014</i>
Wireline incumbent	Average	\$32.83	\$4.31	\$37.14	71.5	\$0.525
	<i>Observations</i>	<i>65</i>	<i>65</i>	<i>65</i>	<i>65</i>	<i>65</i>
	<i>Standard error</i>	<i>0.69</i>	<i>0.24</i>	<i>0.72</i>	<i>0.8</i>	<i>0.013</i>
Wireline rival	Average	\$34.63	\$2.91	\$37.54	69.9	\$0.543
	<i>Observations</i>	<i>50</i>	<i>50</i>	<i>50</i>	<i>50</i>	<i>50</i>
	<i>Standard error</i>	<i>0.81</i>	<i>0.25</i>	<i>0.94</i>	<i>1.5</i>	<i>0.015</i>
DBS competition *	Average	\$38.96	\$3.37	\$42.32	67.7	\$0.651
	<i>Observations</i>	<i>52</i>	<i>52</i>	<i>52</i>	<i>52</i>	<i>52</i>
	<i>Standard error</i>	<i>0.90</i>	<i>0.26</i>	<i>0.96</i>	<i>2.0</i>	<i>0.020</i>
Wireless competition *	Average	\$39.84	\$5.19	\$45.02	71.2	\$0.635
	<i>Observations</i>	<i>29</i>	<i>29</i>	<i>29</i>	<i>29</i>	<i>29</i>
	<i>Standard error</i>	<i>0.61</i>	<i>0.21</i>	<i>0.67</i>	<i>0.7</i>	<i>0.012</i>
Low penetration test	Average	\$37.17	\$3.39	\$40.56	60.1	\$0.695
	<i>Observations</i>	<i>39</i>	<i>39</i>	<i>39</i>	<i>39</i>	<i>39</i>
	<i>Standard error</i>	<i>0.87</i>	<i>0.39</i>	<i>1.05</i>	<i>2.3</i>	<i>0.020</i>

* These averages include cable system prices in communities with an Effective Competition finding based on DBS or wireless competition, but not the prices charged by the competing DBS or wireless system. Source: Survey.